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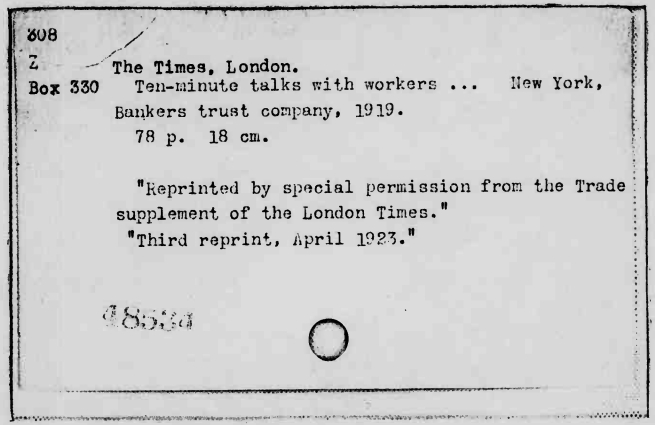

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TEN-MINUTE TALKS WITH WORKERS

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TEN-MINUTE TALKS WITH WORKERS

These "Ten-Minute Talks with Workers" are reprinted by special permission from the Trade Supplement of THE LONDON TIMES. They are submitted in this booklet as a contribution to straight thinking about the relations between Capital and Labor which is essential to the progress and peace of the whole world.

NEW YORK
BANKERS TRUST COMPANY
1919

Third Reprint April, 1923

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The Partners

TALK NUMBER I.

IF you have read Robert Louis Stevenson's stirring tale, "Kidnapped," you will remember how David Balfour and Alan Breck, when they were hiding on the mountains and had nothing to eat but a little porridge, added to their food by groping for trout in the stream. Groping for trout is catching them with your naked hand, by feeling for them very gently under the banks and between the stones, and grabbing one, if you can, when you feel him. With much effort David and Alan managed to catch a few small fish.

The steam trawler goes out into the deeps where the fish shoal by the million. It has every modern appliance—steam winches, miles of nets, storage for hundreds of tons of fish, a skilled master, and experienced hands.

Alan and David could only supply themselves with one or two small fish. A modern steam trawler can feed a sizable town. The difference in results is enormous. In one case you have individual and primitive effort, in the other the union in modern industry of three partners, each contributing a share to the final result, but each dependent on the other two.

The first of these partners is, of course, Labour. The trawler will lie in harbour till it rots if no men go on board to get up steam and head her to the fishing grounds. Nowadays practical men of affairs, anxious only to obtain the best results, have learnt to regard Labour as what it is, namely, one of the partners in industry. It is neither more nor less.

But if Labour is to maintain its title to rank as a partner it must act as a partner. It must contribute its share to the joint concern gladly and fully. That done, Labour is entitled to a full share of the results achieved.

What is Capital?

The second partner is Capital. In the earliest days of human existence on the earth man must have caught his fish as David and Alan caught their trout, but mingled with the bones of later men are found the rough fish-hooks which they had invented to aid them in their fishing. These fish-hooks then represented capital just as in our times the steam trawler does. So many people make the mistake of thinking that capital is another word for money. Generally things are capital.

The man whose patient labour made the fish-hooks was entitled to a share of the catch, and today the claim of Capital to rank as one of the partners in industry is just. If by some unfortunate miracle the whole of the capital of Great Britain —its railroads, its mines, its buildings, its works, its plant, its tools, its roads—were whirled skyward in the night, we should once more be a mass of unaided men struggling grimly with the bare gifts of nature for a miserable livelihood. Every man who saves instead of spending, who works to-day and postpones enjoyment till to-morrow, who sows in spring in hope of a harvest in autumn, adds to the available amount of capital, adds, that is, to the apparatus by which Labour increases its own efficiency.

The third partner is Brain. If you watch a village smithy where the blacksmith, who is in part a capitalist, works alongside his man, you may think that so far as the smithy is concerned it would make little difference if master were man and man master. As the scale of industry grows, as works get larger and larger, buying raw materials and selling finished articles in every corner of the globe, the need for men of brains, able to direct and organize all these lines of activity, becomes obvious.

We cannot go back to the methods of our forefathers; in attempting to do so we should, like the Bolshevists in Russia, bring our own civilization down about our ears, for there are a dozen mouths to feed where there was once but one. For the great operations of modern industry the best brains of the country are required. Brain ranks with Capital and Labour as a partner in industry.

A study of the condition of this country three or four hundred years ago shows that wonderful progress has been made. Progress is many-sided. It is moral, spiritual, political, civic. These are the finer aspects of progress, but behind them lies economic progress, the winning of a life more full of the good things of life; and this economic progress has been due to the growth in numbers and capacity of the three partners of industry. Their future depends upon the recognition by each of them of their mutual dependence and their common interest.

Paying Our Way

TALK NUMBER II.

"MY other piece of advice, Copperfield," said Mr. Micawber, "you know. Annual income twenty pounds, annual expenditure nineteen nineteen six, result HAPPINESS. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result MISERY. The blossom is blighted, the leaf is withered, the God of day goes down upon the dreary scene, and—and in short you are for ever floored. As I am"!

Charles Dickens was a great domestic novelist. He knew the people, and with a few masterly strokes of his pen he reveals us to ourselves, for human nature does not change. Mr. Micawber's philosophy of life is just as apt to-day and will be just as apt in our great-grandchildren's time.

"Give me," said the prophet Agur, "neither poverty nor riches." Exactly. The average man does not envy the very rich; riches bring their own worries. Nor does he welcome poverty. Only those who have been through it know what it means to lie awake and wonder how it will be possible to make ends meet even with the exercise of the strictest economy. Those little pairs of shoes that need repair so badly! Mother knows.

No, they are usually happiest who are what we call "comfortably off." They have enough for their needs and can put a bit by for the rainy day; *it always comes*.

Just the same thing applies to communities. England has just had its rainy day. It is raining now. One does not need

to be a great economist to look round the world and see that the happiest nations are those that are paying their way, and putting a bit by. For them the sun is shining.

The Bogy

Many people get quite unnecessarily alarmed when they hear the words "political economy." They think it is something too difficult for ordinary minds—like the Differential Calculus or the Fourth Dimension. As a matter of fact political economy is only common sense applied to the affairs of States.

Every State buys from its neighbours, every State sells to its neighbours. We call the purchases imports, and the sales exports.

Following Mr. Micawber's line of thought the ideal for every State would seem to be equality between the two, but what perplexes a good many people is the fact that for many years this country's imports of goods have exceeded its exports by hundreds of millions of pounds every year. The hidden explanation is that we have also sold services. Our ships—half the world's tonnage was ours—carried goods for other countries, and those services were paid for in goods.

There was another factor. There was a time when the nation exported more than it imported. By so doing it naturally made the world its debtor, and the amount was shown by the investments this country had abroad. We built their railways and docks and sold them machinery and plant, we became partners in their enterprises, and our profit was paid in the food and raw material that the nation wanted.

Another day we shall see how the necessity of paying us these immense sums led to our being able to get the things we

wanted so cheaply. Just now we will look at the change that the war has brought about.

We are still getting far more imports than we can pay for in exports, but we cannot now account for the difference so satisfactorily as we did. The difference is being paid by the surrender of those investments abroad that enabled us as a nation to live partly on the interest of our savings. In other words, part of the nation's capital has gone and more is going every day.

The nation's purse is not like the widow's cruse. The spendthrift's progress may appear very pleasant, but economists and bankers know that it cannot last indefinitely. Already it is becoming difficult to get what we want.

People who have to get credit at the corner shop know the difference it makes when you cannot pay "ready" and have to ask for credit. It is exactly the same with the State. Things will be better when we start to increase production and pay for what we want. And they will not be better till then.

The Dead Partner

TALK NUMBER III.

THE fact that a firm has lasted for two centuries, in the same trade in the same city, shows that so far as it is concerned the three essential partners—Labour, Brain, and Capital—must have worked together. For clearly, if one of these partners had left the firm the business would have come to an end.

Of much that has recently occurred in Russia, a country bountifully endowed by nature to be the fit home of a great and wealthy people, we know nothing or next to nothing. Of one outstanding fact we are sure. Dire poverty and its awful companions—disease, terror and death—stalk through the land. We know why. One of the partners is dead. Capital has been killed.

No man will ever go right in studying the social question unless he had clear and correct notions about (1) capital; (2) capitalists; and (3) the relation between them.

Take a big works, say a shipyard on the Clyde, belonging to a limited company. The hooter goes in the evening and all the men stream out to their homes. Finally the yard is left silent and still, with only the night watchman on duty. He walks about amongst the capital—the buildings, the slips, the machinery, the raw materials, the half-finished liner. These are the visible items of the company's capital, and they are generally the more important part of it. There are, of course, items the watchman could not see with his eyes—

the company's credit, its bank balances, the book debts, the patent rights, and so on. Capital means all these things.

The capitalists in this case are the persons whose names are inscribed in the share-register of the company. Some of them, no doubt, are very wealthy. Others may be quite poor. Some, perhaps, have the whole of their life's savings invested in the company. They have worked hard, and to them their capital means that in their old age they will get some of the fruits of industry that they have denied themselves in their prime.

Now, since capital is things and capitalists are persons, it looks at first sight as if it would be quite easy to "kill" the capitalists without affecting the capital. In Russia the killing has quite often been literally putting to death. No one in this country proposes that, at any rate not openly; but many people who claim to be "advanced" thinkers want to persuade our workers to put an end to capitalists. Live they certainly may; own capital they may not. And this is said to be a paying proposition from Labour's point of view. One partner being dead, it is assumed that his share will remain to be divided between the others.

This theory has grave defects from higher points of view. Looking at it, however, merely as economics, we see that it leaves out of account the all-important truth that capital, the thing, only does its share in the work of producing by being used up. In the shipyard, you will see coal and steel, excellent specimens of capital, being rapidly used up under your eyes, and these must be replaced daily or even hourly. The fact that bricklayers are at work pointing one of the buildings and that platelayers are repairing the railway line

shows that the more substantial forms of capital are also used up, and want replacing.

On any given day, either by Act of Parliament or by a sufficient use of machine guns, it would be possible to kill off the capitalists, and leave the capital as it then stood; but, unless a new set of capitalists was called into existence, there would be no capital left as soon as the existing stock was used up. There can be no industry without capital. So much is clear. There can be no capital without capitalists. If that also is not clear to any worker, let him look at what is happening in Russia.

The Origin of Wealth

TALK NUMBER IV.

WHEN the Bible tells us that Mordecai "sought the wealth of his people" it does not mean that he tried to steal their property, but that he diligently endeavored to promote their welfare. Wealth was once a broader and, we may admit, a nobler word than it is to-day. It once meant welfare, it now means the material goods which secure to us one particular kind of welfare. Wealth does not ensure welfare, but welfare is difficult to all men and impossible to most without some measure of wealth.

It is one of the most difficult of the economist's tasks to measure the wealth of a nation. For very important reasons it is now necessary to have the most exact estimate of the wealth of Germany, but it is obvious to anyone that there are very great differences of opinion on the matter. We can see clearly enough that national wealth is subject to variation. No one would deny, for example, that England to-day is wealthier than Spain, whereas in Queen Elizabeth's time Spain was wealthier than England. Similarly, it is quite clear that England is today very much wealthier than she was in 1600, or in 1700, or in 1800.

In 1889 Sir Robert Giffen, a great authority, estimated the wealth of the United Kingdom at £10,000,000,000, or £270 per head. He quoted from earlier writers an estimate of the wealth of England in 1600 as £100,000,000, or £22 per head. That was as far back as he could go, but we can in our mind's

eye trace it right back to the misty times before history begins, and the further back we go the smaller we find man's accumulated stock of wealth was and the feebler was his hold on life itself. All men were once as the Eskimo and the Australian bushman are to-day. It is the growth of wealth that has made civilization first possible and then enduring.

The Springs of Wealth

The growth of wealth is due to two causes. One is individual, and springs from man himself. The other is social, and depends on the relation of men to one another. All through history you can see these two causes operating with ever increasing strength, with the result that wealth has accumulated with increasing rapidity.

The beginning of wealth is any surplus over present needs. But when the Eskimo gets such a surplus, he gorges and sleeps, and has to begin again at the old level when his surplus is exhausted. Something more than a surplus is wanted, and that is the will to use the time during which it lasts in turning out new goods to supply new needs. When a primitive man had sown his seed-corn and yet had enough food-corn by him to last till harvest, his wife could sit and spin while he built a better house or made utensils. In this way wealth accumulated. And when money and trade develop, these multiply a hundred-fold ways of using surplus to the best advantage.

There is no other method of increasing wealth than this old way of working for a surplus. The intricate machinery of modern society may hide but cannot alter the fact, for it is a law of nature, and there is no appeal against her ruling. The war has compelled us as a nation to consume faster than we produce, to suffer deficits instead of making surpluses. We

did it for high and noble purposes, knowing that, with a nation as with a man, life consisteth not in the abundance of things possessed. Now, these greater aims are accomplished, we must get back to the making of a surplus if the community is to enjoy its former prosperity permanently.

In the earliest times it was seen clearly enough that no man would create a surplus unless he was secured in the possession and enjoyment of it when made. The oldest codes of law provide for this. "Thou shalt not steal," is not only sound morals but practical economics. The mark of Western civilization is that it has, century by century, improved the relations of men to one another in society. Formerly, "the good old rule" was:

> They shall take who have the power,
> And they shall keep who can.

But this "simple plan," as the poet called it, kept society poor as well as individuals. To-day, if a man filched a turnip out of a peasant's barn, the whole force of society would come down on him, through the local police-court, to teach him better social conduct. So ingrained is this feeling now that in a modern mining "camp," where men will drink and dice with a murderer, they will combine in a moment to hunt down a thief.

The aim of true social reform is to bring to greater perfection these two world-old causes of the growth of wealth; that is (1) to make it easier for all who will to make a surplus; and (2) to secure them in the undisturbed enjoyment of it. Plans which ignore the need for a surplus and the need for security are doomed by the nature of things to be disastrous.

The Four Factors

TALK NUMBER V.

UNTIL Adam Smith published his "Wealth of Nations" in 1776, even wise men and prudent statesmen were the victims of dangerous fallacies when reasoning about national wealth and the means to secure it. Since money measures wealth, it came to be identified with it, which was much the same as confusing yard-sticks with suits of clothes.

Again, the countries where the precious metals abounded were supposed to be the wealthiest countries. "They shall be my East and West Indies," says old Jack Falstaff, "and I will trade to them both." You will remember that he got nothing but shame and confusion of face out of his trading, for he had wrongly estimated the Merry Wives of Windsor. Men made a similar mistake in dealing with the real Indies. They showered on their kings barbaric pearls and gold, but for all that were very poor countries because they were ill-supplied with the four factors of wealth production.

Two of these factors must be there before any start can be made in the production of wealth. These original factors are: (1) The gifts of nature, land in particular, and (2) labour. The other two, (3) capital and (4) organization, are the result of social life and growth. They were present, of course, in rudimentary forms soon after a start was made, but their decisive importance in relation to the other two came later. The land we live in is in all essentials the same England which bred the famous sea-dogs of Elizabeth's day.

In size and climate, in soil and rocks and minerals, it is unaltered and unalterable.

If we were to plot out a piece of the Sahara of the same size and shape as our own country, how many of us would it support in comfort? Obviously not more than a few score, settled in the rare oases. So that the first requisite of wealth production is one which man does not create and cannot do much to control. In some lands "You tickle nature with a hoe and she smiles with a harvest." In others the severest toil only wrings a miserable pittance out of her niggardliness.

The return in wealth which is given by the fixed and unalterable dowry of nature depends on the number and character of the people who use or "exploit" this dowry. Before white men went to what is now the United States, that country, though endowed perhaps more bountifully than any other, was poor indeed. The Red Indians had their virtues, but they were not the industrial virtues. When Britons emigrated to America, their training in industry enabled them to lay the foundations of the great America of to-day.

This is so clear as not to be disputable when taking a historical survey of the growth of industry in a modern country like our own. What is not so clear is that it still remains true. We can form a picture in our minds' eye of the Pilgrim Fathers winning their way by hard wrestling. Their task was no harder than ours of to-day, when we have the colossal waste of the war to make good, and nothing but hard, conscientious, and intelligent work will do it.

Capital and Organization

Let us now consider the two original factors as fixed. We then have a given number of people exploiting a given extent of

country. Their success in doing it will depend upon the two factors which have come into importance as society has developed.

The first of these is capital, which is always spoken of as so much money. Even with respect to a given individual, this is only a sort of shorthand definition, and a nation's money is one of the smallest and least important items in its capital. Our national capital is that stock of tools, machines, engines, buildings, and transport agencies which we have got together to assist labour to turn nature's endowment to the best account. It rests entirely with ourselves to what extent this stock of capital shall grow.

Until comparatively recent times the owner of capital was generally the person who applied it to industrial uses. As capital became more and more important, its successful application to industry came to require more and more skill and consequently men who could organize businesses came to be of great account. The capitalist tends more and more to become a mere shareholder, and the success of the company depends on how it is "run." All of us have opportunities of watching the factor of organization at work, for of two "mills," with equally good workers and equal amounts of capital, one thrives while the other fails.

Because of certain special forms (trusts and kartels), organization has attracted more attention as a factor of wealth-production in other countries than in our own. But it is here that its greatest triumph has been won, for forty-five millions of us live in these little islands; and, taking us as a body, we do very well indeed, thanks to a good store of natural resources, exploited by skilful and industrious workers, using large accumulations of capital, and directed by fine organizing ability.

The Pillars of Society

TALK NUMBER VI.

CHARLES II. on one occasion received a gift which was at the time considered well worthy of reception even by Royal hands. It was a few pounds of tea. There are now in this country about ten million households, and in all of them, except where is it banned by deliberate choice, tea appears on the breakfast table every morning as a matter of course.

"The delicate juice," as it was called by the first European writer who refers to it, the Italian Botero in 1590, was at first only sipped by Royalty as the rarest of luxuries, and is now the common drink of all. If there are such things as secular miracles, this is one. It shows in the clearest fashion the good work which the economic organization of society can turn out. Yet in how many households is a moment's thought ever given to that real marvel, the teapot on the breakfast table filled with its "delicate juice?"

It is worth while then to examine the way in which this noteworthy fact of the morning cup of tea comes about, for it is not only a familiar fact but a typical one, so that our examination of it will take us down to the foundations of society.

Notice, to begin with, that the cup of tea on your breakfast table is yours. It is a commodity about to satisfy a want, and as you feel the want, you must be able to control the commodity. If, as is now happening daily in Munich,

another could snatch the cup out of your hand as you raised it to your lips, your want would go unsatisfied because your property had been taken from you. There was a time when a man's power to dispose of his own property in the satisfaction of his own wants depended on the strength of his right arm. Now the law is your right arm.

But the cup of tea on your breakfast table is only your property because the tea plantation in Assam or Ceylon is some one else's property. The two rights are linked together. If out there the law failed to maintain social order, so that tea-plantations were grabbed by any man or body of men who could exert physical force enough to do it, there would soon be no tea-plantations there and no cups of tea here. There is a well-known case in point. Lowland Scotch farming is now about the best in the world. How and when did it become so? When Highland raiding was put down, leases for terms of year introduced, and the farmer guaranteed the enjoyment of the wealth he produced.

Healthy Competition

The first pillar on which society rests is private property. This does not mean that society has no claim on the property it safeguards. It has; and in England to-day that claim is most thoroughly and rigorously pressed. A man died recently leaving a fortune of more than two million pounds, of which the State claimed over £800,000 as "death duties." It does mean that having, in its own interests, stated and exacted its own claims, society must, also in its own interests, see that the balance which it does not claim is rigorouly safeguarded for the owner. How much society can claim without defeating its own object by destroying the motive to create wealth is a

very important question. The legalized claims of Chancellors of the Exchequer might reduce the Lowlands to the low economic level at which they were freed from the illegal exactions of the Highland caterans.

In the next place, the cup of tea is on your breakfast-table because any one who likes is free to offer to serve you, the consumer of tea, in the capacity of a supplier of tea. And since men have of their own free will undertaken this work, and of these men you have selected one to serve your turn, he knows that he must do it well or lose your custom. There is nothing improper or immoral in changing your grocer because you do not like his tea—in compelling him, that is, to compete with his fellow-grocers for your custom. It is never, as you know, competition which serves us to which we object, but only that competition which injures us. But we cannot have the advantages of the one without submitting to the stress of the other, and in fact every man worth his salt, whatever his station in life, is the better for having to compete with others.

During the war competition had to be superseded in many directions by rationing. The way in which we braced ourselves to the new system and made the best of it was remarkable, but everybody welcomes the relaxation of control and the consequent revival of competition, because the war showed how much better served the public was when it was "up to" its servants, the shopkeepers, to serve them well or lose their custom. Intelligent competition between individuals able to compete is the best safeguard of efficient social service, and it is the second pillar on which society rests.

In the third place, your morning cup of tea is at your disposal because there is an equal chance for any person who so

desires to become its purveyor. Castes and guilds and "mysteries" no longer stand between any man and his career. Any man who wishes may become a grocer. That is the modern way, less picturesque and not at all a beaten track, but a much more efficient way. The third pillar on which society rests is equality of opportunity for all.

Granted, as it must be granted, that the society resting on these three pillars is not perfect in all its parts, it is still clear enough that to knock away any or all of the pillars will simply bring society down in ruins. That was mere theory two years ago; it is now an indisputable truth established by sad experiment in Bolshevist Russia. It can never do a man any harm to possess property, to feel himself braced and stimulated by competition, to know that any path in life which he has the desire and the energy to follow is open to him.

True social progress then consists not in destroying these things, but in placing them at the disposal of every one. We can build better, but we must build on these world-old pillars.

What is Capital

TALK NUMBER VII.

IF you glance over the older books on political economy you will see that they contain long and wrangling discussions as to capital. Certainly many generations of students at our older universities have sharpened their wits against John Stuart Mill's "Fundamental Propositions Respecting Capital," and especially the last and most famous, which is that "a demand for commodities is not a demand for labour." These skirmishes in the text-books have been a mere picnic compared with the battles that have been fought around capital in the great world outside our ancient universities.

It is always a good plan to study the word that stands for a thing as a help to understanding the thing itself. Now there are three common words which are all so nearly related to one another that they may be written thus: cattle = chattel = capital. Capital, then, is a thing, a chattel—something that can be seen with the eyes and touched with the hands; and it looks as if the origin of capital goes back to those far-off times when man was deeply concerned with those living things now called in our language "cattle," from which he could get constant supplies of food and clothing, at that time his only idea of wealth.

The only logical way of looking at the age-long history of man is to take for granted that the higher grew out of the lower; the comparatively good out of the relatively bad. Men who lived by keeping animals must have come later than

men who lived by killing them. The pastoral stage follows on the hunting stage. One day, back there in the times we have to imagine as best we can, there appeared on earth the first capitalists—men who had captured and tamed cattle instead of killing them, and who, claiming them as their own, called them "chattels," a lawyer's term for one kind of property.

Foundations of Society

Human nature alters very slowly, if it alters at all, and we may be pretty sure that man's need for capital and the services it does for him are in principle to-day what they were then. These early capitalists, it will be seen, postponed the killing and eating of captured animals in order that they might have later on a larger supply always available. They thus became far wealthier than they had been before, and, what was of greater social consequence ultimately, the ups and downs of hunting—abundance one week and penury the next—became a thing of the past.

Let us turn at once from this peep at ancient society and look closely at our own. We see that it differs from this older society in this respect. Men in a modern society are surrounded by a vast and complicated mass of things, which, collectively, are spoken of as "wealth," from the economist's point of view, and "property," from the lawyer's point of view.

The first business of a scientist is to classify the objects which his science deals with. If we do the same, we see almost at once that these things called "wealth" or "property" fell

into two great groups. Let us put some of them into their right group, as follows:—

First Group	Second Group
A factory	A cottage
A dray-horse	A hunter
A motor-lorry	A touring car
A sovereign	A spade-ace guinea
A bale of raw cotton	A lady's blouse
A Jacquard loom	A bicycle
Williams on "Real Property"	Shakespeare's Works
A sack of wheat	A loaf of bread
An ox	A roasted sirloin
A roll of printing-paper	A copy of *The Times*
A jar of marmalade in a shop	The same jar on the breakfast table

The difference between the two groups is obvious. All these things are wealth, since all of them are worth something, and can be sold for money. They are all property, since in respect of each of them there is one person whom a law court would declare to be the owner to the exclusion of every other person. From the economic point of view, however, there is a clear-cut distinction between them, for, whereas the "goods" in the right hand column directly satisfy the wants of man, those in the left-hand column do not. The former are "consumption-goods," the latter "production-goods," or capital.

Production-goods are destroyed as such in passing into consumption goods, just as the latter in turn are destroyed, in a longer or shorter time, in satisfying human needs. A lady's blouse wears out very rapidly; the Jacquard loom that wove its material also wears out at last. The well-being of us all depends most closely on the supply of capital, which, as is now clear beyond dispute, is not some noxious weed which is choking the goodly growth of society, but the bridge between the gifts of nature and the needs of man, the link between the industry of the past and the industry of the future.

Sometimes the two kinds of goods, as in our last items, are alike in form and differ only in place, but all economic effort resolves itself in the end into turning production-goods into consumption-goods.

What, then, are capitalists? Always the owners of production-goods or capital; often they are also the supervisors of the processes by which society gets goods to consume in order to satisfy its wants.

And a man who is not a capitalist becomes one when he decides not to buy a consumption-good from the stock already existing, but to use his money to increase the supply of production-goods. Society, therefore, needs both capital and capitalist.

What Capital Does

TALK NUMBER VIII.

FINANCIALLY, the capital of a given firm is the market value in money of all the things it possesses and uses for the purpose of carrying on its business. The constant use of money as a measure of capital tends to hide the real nature of capital. Socially, capital is that part of the wealth of the nation which is used not for the direct satisfaction of human needs, but for the production of commodities which can provide these satisfactions. In its right place, the bicycle factory, a ton of steel tubing is very useful. If it was dumped down on your allotment you would rightly regard it as a nuisance. A bicycle, of course, would be another matter entirely. If we think of capital as things, not as money, our reasoning in economics will never get into a tangle.

The functions of capital may be considered from two points of view: (1) that of society in general, and (2) that of the workers in particular.

Capital enables the production of goods to be carried on by methods which give the best possible results in output. You live in the middle of a large town, yet you have at your very hand, at any moment of the day or night, a full supply of the commodity you need most—fresh water. All you have to do is to turn a tap, and that tap is the last visible piece of a vast accumulation of capital—pipes, pumping machinery, and reservoirs—which brings you water from a mountain lake a hundred miles off. If you lived in the country, you

would have a well, a winch, a rope and a bucket—also a mass of capital, but requiring far more effort on your part to get at the water. If even this small array of capital vanished, and every time you wanted a drink you had to go to the stream and scoop the water up in your hand, you would have a painful lesson in the economics of capital.

A Remarkable Feat

Capital enables us, then to substitute for straightforward but inefficient methods of production the methods which are roundabout but efficient. The savage kills an animal and uses the dried pelt as a garment. Nothing could be more direct. It is recorded that in the 18th century an Englishman won a big wager by dining one night in a jacket which had been wool on a sheep's back 24 hours previously. That was much less direct. To-day a sheep-farmer on the Darling Downs will wear a suit made from cloth manufactured in Yorkshire from wool grown in his own district, perhaps on his own run. Nothing could be more roundabout, but it is the modern way, thanks to capital.

Again, capital, though it makes production roundabout, makes it constant and certain instead of intermittent and dubious. You cannot but notice how independent we have become of local fluctuations in natural supplies. In the Middle Ages, Yorkshire might be starving while Surrey was bursting with harvests. Now, at any rate in peace times, the processes of manufacture and the flow of commodities are so constant that even slight interferences when they occur, as through an industrial dispute, are regarded as strange. Once they would have been too usual to be noticed much.

Once more, capital enables productive processes to be carried on while the result is remote in time, while those who carry them on are still in a position to enjoy meanwhile all the necessaries and comforts of life. Unaided labour has to live from hand to mouth, to produce to-day the good which will satisfy the needs of to-day. Capital relieves industry of this necessity, and enables plans to be laid far ahead and a distant return to be waited for in comfort.

How Labour Benefits

From the point of view of labour, it is to be noted in the first place that capital in the specialized form of machinery and engines is constantly relieving man of more and more of the "donkey work" of industry. Coal-cutters, for example, relieve miners of much heavy work without reducing their earnings. Too much cannot be done to relieve man of toil that steam and electricity can do as well as he.

Again, capital takes the risks of industry off the shoulders of labour. The first claim on the product of industry, both in fact and in law, is the wages of the workers. That the goods when produced do not sell, or are sold at a loss, makes no difference to this first and most important claim. And since capital must shoulder the risks of production, caution, insight, and brains become of increasing importance, and so again tend to improve the national industry and increase its output.

The difference made in the output of labour when assisted by highly specialized forms of capital is almost incredible. It was calculated that the labour-power used in growing barley in the United States in 1896, if it had only had the capital-power of 1830 at its disposal, would have produced just under three million bushels, whereas, with the actual

capital-power of 1896 to aid it, the harvest was nearly 70 million bushels. In other words, nearly 96 per cent. of the product was due to capital. Another calculation showed that capital-power applied to pin-making increased the efficiency of the labour-power no less than 90-fold.

This, then, is what capital does, and this is the service that capitalists render to society. It also explains why, in Russia and elsewhere, the enemies of capital turn out to be the enemies of mankind.

How Capital Gets to Work

TALK NUMBER IX.

THINK of capital as things and you will always go right in your thinking about capital. So far we have steadily kept to this rule. For it has this great advantage, that when you come, as you must at certain times and for special purposes, to think of capital in terms of money, you still continue to think in straight lines and not in tangles.

As you walk about England, still by far the best way to see it as it is, you come every now and again on a curiously narrow, straight bit of land, grass grown and tangled, with a hedge on each side. It looks like a ruler-shaped field. There are several reasons to account for these ribbons of grass-land, all of them very interesting. One of them is that it is a bit of old Roman road. There are other bits of Roman road that you can only distinguish from a stretch of modern road by their straightness, for to a Roman engineer a road was the shortest distance between two given points. You can motor to-day over miles of road along which the legions of Severus and Agricola marched.

Now a road is a typical piece of capital. If you want to walk for pleasure you take to the fields. Roads are business routes.

But a road would very soon go out of business if it was not "kept up," and the annual cost of keeping up his Majesty's highways is enormous. For nearly 2,000 years money has been spent freely on those bits of Roman road still in use

to keep them as roads. Where it has not been spent, you see the result—"No Road."

Money is shorthand for capital. If you asked "What is the capital of the North-Western Railway?" and someone began to reel off an inventory of the line—so many thousand locomotives, so many tens of thousands of carriages, down to so many balls of string and lumps of chalk—you would really be none the wiser. When the capital is given in money you can carry it in your head. Moreover, you can compare it with other capitals.

This is one convenience of thinking of capital in terms of money. There is, however, a much better reason than this. For income is also measured and paid in money, and unspent income is the only source of new capital. Capital wears out with use. Some of it, circulating capital as the old text-books call it, can only be used once; some of it, fixed capital, can be used over and over again, but that too wears out and must be replaced. Shoe-leather is circulating capital, and you know how clever your youngsters are at circulating it. A Blake stitcher is fixed capital. It makes many shoes, but goes to the lumber room in the end.

All good firms devote part of their profits or incomes to keeping up their capital. They have a depreciation account, in money, which grows larger as the capital-goods they own deteriorate, and it is spent on renewing or replacing them.

Unspent Money

The unspent income of private persons goes into banks. Stockings as banks have fortunately gone out of fashion. Money in a stocking does nothing. Money in banks soon gets to work. It becomes capital.

At one time, then, unless a man could use his unspent income in his own business, he had no other resource than to let it lie idle. You see in museums and old curiosity shops the oak coffers, with heavy iron hinges and locks, in which it was kept. It was, then, a natural and profitable development that a class of men should arise who would devote themselves to getting this idle money out of these coffers and set it to work as capital. A capitalist is a man who owns capital. He often, but not always, is a man who knows how to use his unspent income as new capital. When he does not know this, the man who can show him how is just the friend he wants. Let us call such a friend a financier. Then we may put the position thus: A capitalist owns economic power, which in outward form is so much unspent income in bank or strong box. A financier is a man who is on the lookout for new and useful ways in which this idle economic power can be got actively to work in the national industry. Capitalist and financier are partners in the maintenance and increase of our national supply of capital.

Before we note the obvious disadvantages of this partnership, we must observe that it has to exist, in some form or other, if the economic interests of society as a whole are to be properly served. Some person or persons there must always be who shall provide the channels by which the numerous tiny driblets and rivulets of private savings can run into the great stream of our national industry, for if that dries up the national life will begin to flag and decay. And, as recent experience has shown, no one can do it worse when he tries than a Government official.

The disadvantage, of course, is that the sound, acute and honest financier is apt to be simulated by the shady and

unsound "company promoter," who merely lies the money out of the investing public and loses it for them. Much capital is thus wasted.

There are, however, remedies available. The law can be made far more stringent than it now is, and so choke most, if not all, of this nefarious financing. Also, persons with capital on the look-out for a financier, need not let greed for impossible dividends blind their judgment, and can always get advice from their bank managers. Penal servitude and common sense could cure all the evil.

The Sanity of Society

TALK NUMBER X.

NOTHING is easier than to denounce society. The news printed in any issue of a newspaper will provide a hundred texts for a hundred screeds, all as much alike as the leaves on an oak tree, and none of them helpful. The idle rich are contrasted with the deserving poor—idleness and desert being taken for granted, and the trick is done.

Now, clearly enough, to assert that society is all wrong is to assume that our forbears were all fools, an assumption not to be made lightly. For society as we have it was their work, being in part an unconscious growth from their habits and instincts as human beings, and in part the conscious adaptation of that growth, by lopping and pruning and grafting, to ends deemed to be socially desirable. The task of economic science, the practical result we should like to see issue from its investigations, is to ascertain within what limits further conscious adaptation is desirable and possible.

In the meantime, there is a bigger fact to be observed than the famous "upper ten" at one end of the social scale, and the "submerged tenth" at the other, and that is the serried ranks in between—millions of men and women and children who do, in one measure or another enjoy the comforts and amenities of life. If you live in one of our moderate-sized towns, which knows not the glaring contrasts of London, and where social phenomena can be seen steadily through a clearer and cleaner atmosphere, you will see if you observe things

with an unprejudiced eye that, taking the broad results, men get out of society on an average and in the long run what they put into it. The mechanism of society is sound enough, and the social mind is sane enough, to bring about a fairly close approximation of merit and reward. A man gets what he is worth, and that is all he can rationally expect.

Another point is of great importance. All over the world now, as you ponder over this talk, men are at work for you—planting the tea you will one day drink, sowing the corn you will one day eat, shearing the wool you will one day wear, curing the tobacco you will one day smoke, and so on indefinitely. You can do none of these things for yourself. Unless they are now done for you, you will, in the short run, be on the rocks, These men do not do these things because they love you. To begin with, they do not even know you. They do them to serve themselves, yet they also serve you. In other words, society is sane enough and cute enough so to organize the self-regarding instincts of man as to produce results that could not be bettered very much at any given moment if men suddenly became what they never will be, absolutely unselfish and altruistic.

Other Good Points of Society

Again, as society is now organized, the results of failure come home to those who fail. There are exceptions to be sure, as the grotesque failures of certain government officials during the war, at Chepstow and elsewhere, bitingly remind us, but the general rule is clear enough. Would you really like it altered? If a friend fails in business you are very sorry, and

naturally do all you can to ease his fall and put him on his feet again. "The friendly lead" is a standing tribute to the sweetness in human nature. But, on reflection, you see that the fact that failure comes home to those who fail is a powerful educative factor which society cannot afford to dispense with. One Chepstow is bad enough, but where should we be if the Clyde was lined with "Chepstows," and all that happened was a debate in the House of Commons?

Observe that it is not a question of abrogating the rule. That we could not do if we would, for no legislative legerdemain can make failure into success. The question is rather, Would it be social wisdom to alter it if we could? The answer is clearly in the negative. Society, that is, is sane on this vital matter. Once more, we find it utilizing the basic instincts of the individual, and organizing them for the common good.

Finally, as we can see that the great body of society is all right, we learn that the line of advance is to deal with the part that is admittedly unsound. Nothing said so far implies, or is intended to imply, that undeserved poverty is to blemish for ever the fair face of society. Some poverty is the economic result of failure, but most of it is due to want of opportunity. There has been no failure because there has been no chance of success.

It is in dealing with this problem that society has got to make a new and better use of its sanity. We all see that now, and are prepared to follow where the truth leads us. It will not lead us to Bolshevism. So far as that is an attempt to mend the economic fractures of society it has been a grievous failure—a total wreck, not a repairing job. Mr. Justice Sankey is at one pole, Lenin at the other, and it surely

requires very little wit to distinguish the British architect from the Russian jerry-builder.

The Chancellor of the Exchequer, so far as is desirable, can deal with the "upper ten." The schoolmaster, if we will let him, can deal with the "submerged tenth." A more courageous sanity is all that is necessary.

Our Place in the Sun

TALK NUMBER XI.

TAKE a globe such as your boy sees and uses in school, and hold it out at arm's length so that London is straight before you in the line of sight. You see, of course, just half of this miniature world, and that half contains four-fifths of all the land. London is the exact centre of the great land-mass of the earth. That is our place in the sun.

From the economist's point of view the countries of the world fall into various groups, with interesting features that are worth our consideration in broad outline.

There are, to begin with, old countries and young countries. The economic age of a country is judged by its advance towards the civilization and economic structure of our own. which, rightly enough, we take as a standard. For it was in England that the Industrial Revolution began and first ran its course. Many of you have seen the iron railings round St. Paul's Cathedral. They were made in the Surrey iron-works, in old-world foundries, built there to take advantage of the forests of the Weald, which word means "wooded part." Within a century young King Coal had come into his kingdom, and the industrial North began its career of conquest over the world's trade. When next you feel the earth tremble under the blows of a Nasmyth hammer, forging the keel-plates of an Aquitania, think of Abinger Hammer, in Surrey,

still one of our beauty spots, but no longer, as its name implies, a centre of the iron trade. Industrially England has grown old since the days of Sir Christopher Wren.

Invested Wealth

Then there are creditor countries and debtor countries. As our country got old and wealthy other countries came to her to borrow capital to develop their own industries. For countries, quite unlike ladies, want to grow old, because it pays. And we made so much money, and had such a tremendous advantage because of our earlier start, that we were in a position to finance industrial developments all over the world. For example, we built the earlier railways of America and most of those of the Argentine and Canada. Before the war we had about 5,000 million pounds sterling invested abroad, roughly speaking, half of it in the Empire overseas and half in foreign countries. Argentina is a typical debtor State, paying the interest on her debt mainly in meat and wheat. A great part of what we had lent to the United States years ago as locomotives, rails, and machinery we got back again during the war as munitions. The obligations of the indemnity will justly make Germany, which before the war was rapidly becoming a creditor country, the chief debtor country of the world.

Another very important distinction is between manufacturing countries, on the one hand, and food-and-raw-material producing countries on the other. Before the war we took the first place in the former class and the last place in the other, and after the war our position will be pretty much the same. It is a very satisfactory position as long as things go well, for it means that we are doing relatively higher and

better-paid work. But it is a ticklish position, and if things do not go well serious trouble comes, and comes at once. The U-boat campaign showed us that only too plainly, and now that peace has come we must not forget the lesson. Serious and prolonged industrial trouble, for example, would destroy the nice balance on which we carry on—and there is no alternative.

A Startling Fact

Lastly, some countries are thinly peopled in proportion to their resources and some are very thickly peopled. Here is a striking fact which you can turn over in your minds with great advantage:—If all the people in the world emigrated in a body to the United States, that country would not be as densely populated even then as England alone is to-day. That fact will bear thinking over, as you will clearly see.

So much for our place in the sun. It is second to none. Look again at your globe. You can just see the tiny red patch that stands for our country, yet in pride of place, as in pride of race and history, it leads the van.

It goes without saying that we hold that place because we have become one of the most highly and delicately organized communities in the world. It is with countries as it is with living things—evolution and progress depend upon an increasing complexity of parts, each of which can perform its own function and no other. We have carried the process farther than any other country, and that means that the danger from dislocation is correspondingly greater. We produce only a small fraction of the food and raw materials we require. We sell abroad a very large fraction of the manufactures we produce. The economic machine works very

well. Its social results are not perfect, and we are purposing to make them far better, but, during that process, we must keep the machine going at full speed or danger will be at our heels before we know where we are. Even in a fast, thinly-peopled, lowly-organized country like Russia social revolution has meant economic disaster, and the lesson is obvious. There must be no "monkeying about" with our economic machine lest it should stop dead.

The Cost of an Article

TALK NUMBER XII.

"THE second thing I would fain have had," says Robinson Crusoe, "was a tobacco-pipe; but it was impossible to me to make one; however, I found a contrivance for that, too, at last." And after three or four years had elapsed, he writes again: "But I think I was never more vain of my own performance, or more joyful for anything I found out, than for my being able to make a tobacco-pipe. And though it was a very ugly, clumsy thing when it was done, and only burnt red like other earthen ware, yet as it was hard and firm, and would draw the smoke, I was exceedingly comforted with it."

There are few better text-books of elementary political economy than "Robinson Crusoe," though it is now the fashion to smile when one refers to it, since Robinsonian economics, as they are called, look very unlearned beside the geometrical diagrams and slabs of calculus which are now so much in vogue. But Defoe was a sun-clear thinker as well as a delightful romancer, and his account of the efforts of his shipwrecked hero to satisfy his needs is as sound as it is effective. Anyhow, in trying to find out what is meant by the cost of an article we cannot do better than start by asking what Robinson Crusoe's tobacco-pipe cost him. And, as he was alone, and there were no complications due to social growth, the answer leaps out from Defoe's vivid pages. And it is this: The cost of Crusoe's pipe was the effort of making

it, and his joy over his first smoke shows that he felt he had got a bargain.

To begin with, as you will observe, we are keeping clear of the wire entanglements of money. Just as we thought of capital as things, so we are now to think of cost as efforts. You go down to breakfast and pick up the loaf on the table. All the efforts that went to the making of his pipe Crusoe himself exerted. Of the long chain of connected efforts, ending with that of the baker's boy who brought the load to your door. you have exerted none. The price of the loaf is the pence you paid for it. The cost of the loaf is the sum of the efforts that have gone to the making of it. The connection between the two things, price and cost, is this: You do not want a single link in the chain of costs that need not be there, while you have got to make it worth the while of every man who contributes a link to go on with the job. In short, you do not want to come down to breakfast to-morrow and find no loaf.

The Wealth-Creating Powers

Now this is where some people try to make difficulties that do not exist for intelligent people. They see the effort of the man who sows the corn, of the man who reaps it, of the sailor who transports it, of the miller who grinds it, of the baker who bakes it, of the boy who delivers it. All these efforts, they agree, form part of the real cost of the loaf, and must be duly compensated in the cash paid by the eater of the loaf. The loaf-creating powers of labour are admitted by all.

But the corn was ground in mill, and a mill is capital, belonging to a capitalist. What effort does he put forth entitling him to compensation? His legal right is, of course, obvious, but what is his economic right? The loaf-creating powers of

the capitalist mill-owner are denied by many. He is pictured for the sake of effect as an idle lounger, waxing fat on the exaction of "tolls" to which he has no economic right, and to which a wiser form of society would deny him a legal right.

Now if it were an easy thing to create capital, there might be something in this argument. Capital we must have. Our very existence now depends on a full and continuous supply of it. The men who create capital increase product, sometimes increase it a hundredfold, as we saw in the case of the American barley crop. The wealth-creating powers of capital are no less marked than those of labour. So on that account only the owner of capital is economically entitled to a share of the product.

The older economists told us that the share of capital was the reward of "abstinence," and there is much truth in this, for the origin of new capital is always unspent income, and saving involves the deliberate foregoing of present satisfactions. But, as a matter of fact, much capital is contributed by men who, on account of their large incomes, cannot rationally be said to abstain from the enjoyment of any present satisfactions. And the economic justification of their share of the product of industry lies in the wealth-creating power of the capital they own. These men, moreover, are usually distinguished by business capacity of the highest order, which society, in its own interests, must command, and must therefore pay for.

The cost of an article is therefore the sum of wealth-creating efforts that have gone to its production. These efforts are contributed under modern conditions by two sources—labour of hand or brain, and capital. To both sources compensation is economically due, and is forthcoming out of price.

What is a Market

TALK NUMBER XIII.

FOR an account of what a market was like in our country in the far-off ages before history begins, ages which are so dim that not even the oldest legends go back to them, we must go to Mr. Howitt's account of a market between groups of Australian black-fellows:

The two parties approach the appointed spot, the men in front armed to the teeth and the women behind carrying the goods. The chiefs go out ahead of their respective troops, and assure each other that they come in peace and not for war. After other formalities the market opens. A boomerang, for example, is exchanged for a bundle of cord for tying up the hair. "If in these cases," says Mr. Howitt, "the parties are not satisfied, there is first an argument, and then a regular combat between all the men present."

The chief points of a market appear even in this primitive meeting. It is a definite spot where at an appointed time an exchange of goods takes place. Note in particular that there is no passing of money. Goods are exchanged for goods. Money came later, and the market was settled in a given place, often distinguished by a "market cross," still standing in many of our older towns. Note, too, that the modern tendency is to do away with the use of money in all big markets, where it is replaced by "paper." If by some unexpected whim all the merchants and dealers in "the City"

took it into their heads next Monday morning to trade for "cash down," business would come to a dead stop.

Schoolboys are for ever "swapping" their peculiar treasures—a top for a dozen marbles, a pen-knife for a cricket-bat, and so on. Indeed, Adam Smith thought that man had an inborn tendency to truck or barter—a sort of marketing instinct—and even modern psychologists think the point worth investigating. Certainly we cannot go back to a time when men did not trade. Amber, found only in the Baltic, was common in the earliest ages of Ancient Greece. And epochs before that goods moved about the pre-historic world in marvellous fashion. Expert judges think that certain stone axes, discovered in France along with other relics of primitive man, are made of a kind of jade found only in far-off Asia.

Markets once Local Luxuries

This peep at the trading of our primitive ancestors and their present-day representatives—the Australian blackfellows being a sort of living ancestors—shows us that markets were originally a luxury. Trade begins with the exchange of superfluous goods. A man with a tomahawk to spare barters it for a bundle of hair-cord. Goods are made for personal use, not for sale in a market. Later, as life becomes settled and industry more productive, separation of employments, which the economists usually miscall "division of labour," begins. The markets become necessary, and are fixed for known spots and certain dates. But for long ages markets are only local. When on market-day in a country town you see a farmer sell three cows and buy a plough, you are watching a process of marketing which has gone on unchanged in essentials from time immemorial.

But these local markets, important as they are even to-day in our rural economy, are of little consequence in comparison with the developed markets of the modern world. For markets, once merely local institutions, have become nation-wide, and finally world-wide. If you go into the gallery of the Manchester Cotton Exchange, you will look down on a vast swarm of men doing business together. At one end of the Exchange is a large board, on which prices are displayed. The figures are altered, and there is a hum of business. Prices having changed in New Orleans, the news is flashed by cable, and Manchester men are all agog to get busy. So it is with wheat, copper, rubber, tin, and a hundred other staple commodities. For these the market is the whole world, and the cable makes commercial houses in London and Buenos Aires as close together for business purposes as two adjoining houses in Cornhill were a century ago.

Now a National Necessity

When Napoleon called us "a nation of shopkeepers" he spoke in angry jealousy, for he knew that our commercial strength would in the end enable us to wear down his supreme military strength.

But our commercial supremacy has its dangers as well as its advantages. For when markets were held for local exchange of superfluous commodities, the stability of life did not depend on them. Today Lancashire must find a market abroad for about four-fifths of its staple products. That cannot, of course, be called the sale of superfluous commodities. It is the vital necessity of continuous existence for a large section of our industrial population; and the same holds good, though not in so marked a degree, for many other industries.

In a word, as markets have expanded, our dependence upon them has become closer and closer. And this has had three consequences which you will do well to keep in mind. (1) A market is not now a callosity which can be excised without injuring the body politic, but a nerve centre which can be easily destroyed, and with irreparable consequences; (2) as markets have grown world-wide, so has the competition to retain them; (3) the maintenance of our national place in these world-markets requires the services of men of the highest grades of business ability. Marketing is no longer a butterwoman's job.

What is Market Price

TALK NUMBER XIV.

THE central fact of modern industry is that nearly all goods are produced for sale in a market. This is true of minerals dug out of the ground, or crops grown on it, and of articles manufactured upon it. Occasionally the actual worker acts as salesman, but most workers make or help to make goods which others will have to sell to unknown customers, who may be living in another Continent.

In the majority of cases the goods which the worker makes would be of no value to him if they were given to him, for he has no personal use for them and could not himself find a customer for them.

The work of retaining old markets and finding new ones is the most serious preoccupation of the "boss," and in doing it skilfully and continuously he rendered an incomparable and irreplaceable service to his workers. The return in money he gets in his market for the goods he sells there is called their "price." Assuming for the present that we know what money is—though we must not be too confident that we do—let us consider what market prices are and do.

The first law of the market is that there cannot be two prices for the same article in the same market at the same time. A copy of a certain book may be in the "twopenny box" outside the shop door and a precisely similar copy on the shelves inside the shop for half-a-crown. The case is indeed an actual one, and when the purchaser of the twopenny

volume asked the bookseller for the reason, the actual and quite sufficient explanation was given that "the people that grub around in the twopenny box aren't the same sort of people that come inside." Here, then, were two markets that looked like one. A market is really a body of intelligent buyers meeting a body of intelligent sellers, and as they know all the facts of the situation there can only be one price for one article. This is a very important fact when the sellers belong to different countries, and continuous employment in the factories of their respective countries depends on their success.

The second law of the market is that the price obtained in it has yet to be such as to make it worth while for the seller to resort to that market again and again. The price received for the article must, on the average and in the long run, be equal to the total money expenses of producing it, including in these expenses the share which the manufacturer regards as due to himself; and the constant effort of the manufacturer is to bring about this equality between expenses and prices.

Cost and Price

The cost of an article is the effort or the series of efforts which have to be exerted in order to produce it, and effort is work, of body or mind, or both. The price of the article is the money received for it when it is sold. What, then, is the relation between cost and price? Cost is clearly something quite definite, for it is work that has to be done, and no man will work continuously or produce a given article unless the work is sufficiently rewarded to make it worth his while to go on with it. If it is not, he will turn his efforts into a more

remunerative direction. Price on the other hand is constantly varying, and is generally not knowable in advance.

Of course, all prices do not vary equally. Before the war, for example, while the price of wheat varied from day to day, the price of a 4-lb. loaf would remain fixed for weeks together. And, as a general rule, retail shop prices vary slowly, wholesale prices of manufactured articles vary much more, and wholesale prices of crops and raw materials vary frequently, and sometimes violently. Everybody remembers the rubber "boom" and the copper "slump."

Cost varies much less and more slowly. Apart from changes due to new inventions, the sum of efforts required to produce an article is likely to remain fairly constant over relatively long periods, during which there may be, as was pointed out above, frequent oscillations of market prices. Now the sum of money-payments necessary to persuade people to put forth the efforts required may be called the "normal price" of an article—that is, the cash value of the cost. Another good modern name for the same thing is "long period price." The older writers called it the "natural price."

During short periods there may be a difference, even a big difference, between normal price and market price. If the difference is in favour of the manufacturer he will, if he is wise, put most of his unexpected gains into a special equalization account. For competition is sure to eat away these superprofits, and likely also to go still further and bring market price below normal price. For, when one looks at it, it is impossible to expect that the reward of economic effort shall be greater than is necessary to induce men to exert it. There is a powerful force ever at work to produce an equilibrium between effort and reward. Combinations amongst those who

put forth the efforts may for a time enable them to keep the market price above the normal or natural price, but hitherto such combinations have never succeeded in establishing this as a permanent result. The strongest combination is kept at or near the economic level by the possibility of competition as surely as by its actual operation.

Finally, while there are good economic reasons for declining to regard labour as a commodity, the laws which govern the prices of commodities do, in fact, operate in governing the wages or price of labour.

What is Money?

TALK NUMBER XV.

SO far, in these short studies little attention has been paid to what may well seem to some the very first subject which demanded our attention. The one thing we must all have is money, because all the goods and services with which we satisfy our wants are purchased with money. What is first in importance in economic life would seem to be first in importance in economic science. Yet we have left it aside, deliberately and of set purpose, for later treatment, and the fact that we are able to do so without losing grip of reality indicates the fact that money, important as it is, is not the all-important thing.

Suppose a community in some isolated Utopia, with a social system like our own in every respect save this: That it is a closed economy, doing no foreign trade, having indeed, no communications with the outer world. Now, if by some miracle every Utopian woke up one morning to find that every coin he possessed had during the night turned into two coins, it is quite clear that nobody would be any better off. Nobody can eat, drink, or wear coins. But if instead of every coin turning into two coins, every loaf had turned into two loaves, every gallon of milk into two gallons, every yard of cloth into two yards, the Utopians would indeed be economically blessed among men.

In our own case, to be sure, important alterations from this supposed case arise, first from our trade with other countries,

and secondly, from the fact that when the stock of money is increasing, our individual shares of it do not increase in the same ratio, a matter to which we will return later.

What, then, is money? Shakespeare, as usual, tells us the exact truth in the fittest possible words. In his day English standard coins were made of silver. There were no copper coins, and few gold coins. Shakespeare, then, would rarely see any except silver coins. When Bassanio was making his choice of the caskets he passed over the silver one, addressing the metal in scorn as:—"Thou pale and common drudge 'Tween man and man."

This is the exact economic truth; money is a drudge 'tween man and man. A drudge that does a certain work—namely, that of passing goods from one man to another. Money is simply a tool to move commodities with. It performs exactly the same work as a wagon; and just as it would be senseless for a nation to accumulate unnecessary wagons, so it is useless for a nation to accumulate unnecessary coins.

Money is a Tool

In explaining the functions of capital we have already observed that tools form a main element of capital, and that the invention of rough tools first started primitive man on the road of economic development. Amongst the most important of these early tools was money. Abraham paid for the cave and field of Machpelah with "four hundred shekels of silver, current money with the merchants," so that in the dawn of written history money was in full use, and was made, too, of the metal that formed the standard money of England till 1816, and of all other leading nations until only a few years ago. It is probable that coins began as decorations for

the body, the need for decoration being probably as urgent with primitive man as it is with naked savages and wealthy ladies to-day. The earliest known European coins are simply rings of bronze.

How important a tool money is appears on a moment's reflection. The only alternative to its use is the direct barter of goods for goods. The carpenter has made a table and wants bread. He cannot find a baker who wants a table, and if he could, his table would be worth so many loaves that most of them would be useless before he could eat them. The time and inconvenience saved by the use of the tool, money, are inconceivably great.

Face Value

But just as there are knives that will not cut and carts that break down under quite a moderate load, so there may be specimens of the tool, money, that will not do their work well. Any thing can be money that will do the money work, and a curious assortment of things have been used as money at one time or another—blocks of salt, cubes of pressed tea, bales of tobacco, bullets, shells, and so on. What is the essential thing about money? Simply ready acceptability by every one to whom it is offered. The writer once put a sovereign and a pound weight in a bowl of mercury to explain to a child the principle of flotation, and then tried in vain for days to get shop-keepers to take the sovereign because the mercury had given it a silvery appearance. Finally a friendly bank manager accepted it, after weighing it against a sovereign from his till to make sure! For this reason the making of coins has for many centuries been taken over by the State

though it is quite a recent thing, comparatively, for the State to do the work with absolute accuracy and honesty.

Every piece of money bears its value stamped or printed on it—its "face value," as it is called. Whatever thing is universally accepted by a people in exchange for goods is money with that people. If it is universally accepted at its face value it is good money.

Money and Prices

TALK NUMBER XVI.

BEFORE you begin to discuss any topic in the economics of money say over to yourself three times very firmly the following tag:—"What is the price of a pound of strawberries? Half-a-crown. What is the price of half-a-crown? A pound of strawberries." Then you will be ready to begin well and think straight.

Movements in the market price of strawberries are well worth observing. They have a comparatively short "season," and during so short a period the quantity of money current in the country can be regarded as constant, or so nearly constant as not to affect matters much. Then, as the quantity of strawberries offered for sale increases, the price falls. The first strawberries sent to the market this year sold readily at 25s. to 30s. a pound. Very good strawberries have been on sale at half-a-crown a pound, and the price has dropped to 1s. 6d. for rather inferior fruit.

If, then, the quantity of money remaining current and the supply of goods increasing, we get more goods for a given coin, we can see that the contrary is true, also. If goods remain constant in quantity and the supply of money increases, we shall have to give more coins for a given quantity of goods. In short, one cause of higher prices is more money. It is not the only cause, for prices rise as goods become scarcer. But all goods do not become scarce at one and the same time, and a general rise of prices is fairly certain to be due to an increased

supply of money. The strawberry crop this year has been very short owing to the drought, but even if it had been a good crop we should not have seen, as we did before the war, excellent fruit on the barrows and stalls at fourpence or even less a pound. Even in the presence of a good crop there is a force at work which keeps prices from falling to pre-war levels. That force is the purchasing power of much larger supplies of money.

Gold and Paper

Money is a tool. It is like a wagon, for it is used to shift goods from hand to hand as a wagon shifts them from place to place. And as there is a proportion between the quantity of goods to be shifted and the number of wagons required to shift them, so there is a similar proportion between the supply of money in use and the stocks of goods on sale. Suppose that one man had an absolute monopoly of the supply of wagons, and largely over-estimated the number required. Then, in order to recoup himself for making useless wagons, he would have to charge more for those actually used. Now the supply of the goods-shifting tool, money, is actually in the hands of one authority—the Government, and if it issues more money than is needed the users of money will have to pay for the mistake in higher prices for the same goods, or fewer goods for the same prices.

As trade increases, that is, as the quantity of goods to be shifted increases, the number of wagons and sovereigns required to shift them also increases. One of the most important functions of the Government is to issue the necessary addition to the supply of sovereigns and, as it has to give in goods for the gold as much as it gets in goods for the sovereign,

it is under no temptation to issue more money than the markets will readily absorb without affecting prices.

If, however, instead of coining gold into sovereigns, the Government is allowed to print pretty little bits of paper and call them "pounds," the case is altered at once. There is not a single farthing of profit in any sovereign: a "Bradbury" is all profit.

Inflation

It is probable that too many "Bradburys" have been issued. The Government claims that it has exercised the greatest care and only issued them in response to the demands of the market and after careful inquiry. They were necessary to replace the disappearing sovereigns, and to allow for the war-produced flush of trade. In our own case, the conviction that part of the rise in prices is due to unnecessary issues of paper is the result of much weighing of evidence that cannot be undertaken here. But it is clearly established that it is necessary to return at the earliest possible moment to our pre-war pride—an open market for gold and a strict gold basis for our currency and exchanges.

In other cases, the result of "inflating" the country with paper money is obvious. In Russia, for example, the issue of paper roubles has been simply ridiculous. "Kerensky notes" are tumbled about in sack-fulls, almost at waste-paper prices. The Russian prices we see quoted in our newspapers—five shillings for a nob of sugar, and things like that—bear testimony to a vast surplus of "paper" as well as to a shortage of goods. For goods may be very cheap as well as very scarce. "Eggs are cheap in the Highlands," said Dr. Johnson, "not because eggs are many but because pence are few."

As long as all prices, including the price of labour—wages —move in the same direction at the same rate, neither good nor harm is done to particular individuals unless their money incomes remain fixed at their former level. Falling money-wages may be, and frequently are, consistent with rising commodity-wages; for commodity-wages depend mainly on the output of goods and money-wages mainly on the supply of money. This point is of great importance to-day, for while no one wants to see a fall in commodity-wages, a fall in money-wages may be necessary to maintain our power to sell our goods in overseas markets.

Time and Faith in Industry

TALK NUMBER XVII.

CAPITAL renders its chief service to industry by enabling it to take advantage of stage-to-stage methods which lengthen the interval between the beginning and the end of the industrial process, between the preparation of the raw materials and the marketing of the finished article. When a Roman publisher wanted to produce an edition of Horace he collected a number of writing slaves, gave them the simple tools and materials they required, and then another slave dictates while the others write. Few copies could be produced, and they were full of variations.

To-day when the Clarendon Press wishes to produce an edition of Horace the process is very different. The press has taken years to bring it to its present stage, and even then there is much to do before the plates are on the machine, and the word "Go" is given. But when the start is made, there are more copies of Horace on hand in a day than all the publishers of Rome could have turned out in a year, all exact and all alike, and costing but a few shillings each.

Modern processes in industry require time, often a very long time, for their completion, but it pays to take the time, pays everybody; in the given case publisher, workers, and readers are all better satisfied. They live better while the job lasts, they have the laborious work taken off their hands by expensive machinery, and they have a better and cheaper article at the end. But this stage-to-stage plan of doing

things requires more than time. It requires faith. It is an indispensable condition of successful production that men shall have confidence in one another and in the stability of the social system of which they are the working part. This social faith, which enables men to combine and plan for years ahead, is called in economics "credit."

Financial Credit

A man goes into a shop and asks for a hat. He is fitted and suited. Its price is 20s. He puts down a sovereign and the hat is his. There is no question of credit here. The transaction is over and done with. He puts down a "Bradbury." Now the transaction is not quite over—very nearly indeed, but still not quite. It is over between the hatter and his customer, for the "Bradbury" is legal tender. It is not over between the hatter and the State, for the time has to come when the State will honour its bond and deliver up a gold sovereign, which costs something to make, for the bit of paper which costs nothing. As we all believe in the complete rock-like stability of our State we take its "Bradburys" with indifference.

Suppose the customer gives neither sovereign nor "Bradbury," but writes a cheque on his bank. Credit steps in at once. The transaction is not over. The hatter believes, first, that the customer has a balance at the bank, and, secondly, that the bank is sound and will meet the cheque. The customer in his turn believes that the bank will honour the cheque. Often enough, for big transactions, it is the bank that believes in the customer, for it has agreed to let him draw on a "credit" put to his account.

As soon as credit falters, trouble comes. "Paper" to the value of many hundred millions of pounds sterling is in circulation at any given moment, and the first shock to credit spreads itself out like the ripples that circle outwards when a stone is thrown into a pool. If the shock is very severe, as when some great bank stops payment or a famous commercial house files its petition, a "crisis" follows. No man will take "paper," and as the "spot cash" available can only do a mere fraction of the normal work of buying and selling the "panic" spreads until here and there the cooler heads take courage and begin to get back to normal ways.

Industrial Credit

Time and faith are the conditions of successful industry—time enough to do things so as to do them most abundantly and profitably, and faith enough in one another to make us trust to the uncertainties of the future, since we are at any rate certain of ourselves. Everybody can see the importance of "credit" in the narrower sense of meeting one's bond the moment it falls due. But surrounding this narrower financial credit is the wider circle of industrial credit. Banker must be sure of customer and customer of banker, but that, important as it is, is not enough. Anything which introduces uncertainty into the industrial future is bad for the "boss" and dangerous to the worker.

For it is not usually very difficult for the "boss" to adapt himself to the new set of circumstances brought into being by an increase in wages or a decrease in hours, provided that he has time to do it in and feels assured that the new conditions will abide while he does it. Much the same applies to changes in his markets brought about by fiscal and other

changes. And it will be particularly unfortunate if these two sets of difficulties work together. The war has disturbed all our markets, and on regaining old ones and winning new ones our whole future depends. Now nobody can do this except the "bosses." The notion that the Government can do it is merely childish, and if it is not done the workers will be the first and heaviest sufferers. Hence it follows that industrial credit must be firmly re-established. Men and masters must, in their own interests and in the country's interests, be able to face the future with complete assurance in one another.

What Banks Do for Us

TALK NUMBER XVIII.

THE invention of money, the tool of trade, was one of the greatest strides ever taken along the road of progress. It enabled a man to turn a surplus of perishable commodities into a stock of coins having a permanent value. A hoard of eggs or apples becomes valueless in a very short time. Sold for cash, the coins received for them can be easily and safely stored for an indefinite period, still retaining their power to purchase other goods. Not all their power, maybe, for if you had hidden a sovereign in the chimney in 1913, and took it out now, it would purchase things quickly enough, but only to about half the extent of 1913. And, into the bargain, it has been idle all the time.

We have already seen that the problem of keeping unwanted money quite safe was solved at first by locking it up in a strong box or hiding it in a "stocking." It was the hoarded wealth of France that enabled her in 1871 to pay off the German indemnity with unexpected rapidity. But it was soon realized that hoarded wealth is unprofitable wealth. The parable of the talents has both a spiritual meaning and an economic bearing. To keep money safe and busy was a problem that men were long in solving quite satisfactorily. You will remember how the Vicar of Wakefield's hot argument on the morning of his son's wedding was cut short by unwelcome news: "The merchant in town, in whose hands your money was lodged, has gone off . . . and is thought

not to have left a shilling in the pound." To "lodge" money with a "merchant in town" did, indeed, ensure that it should not be idle, but did not ensure that it should be safe, as the good Vicar learned to his cost. This merchant was a rogue, but if he had been perfectly honest the safety of the money "lodged" with him would have depended on him alone. Honourable failure on his part would have been just as heavy a blow to the Vicar. The risk of failure must be spread over so wide an area as to become negligible before a satisfactory method of safe keeping and fruitful using is obtained. Our modern banks have provided us with what we want.

How Banks Work

Suppose that a hundred men in a town have a hundred pounds each for which they have no immediate use, and that they all deposit it in the same bank, which, under modern conditions, is nearly sure to be a branch of a big banking company, with its head office in London. The manager of the bank now has £10,000, and he must be prepared to pay every penny of it out on demand. But he knows that it is wholly unlikely that all the men will want all their money at exactly the same time, and therefore he need not keep it all idle. If, therefore, a man comes to him with a likely proposition to establish a new works in the town, he can afford to let him have, say, £5,000 to do it with. Of course, he only does this on good security. Moreover, he does not part with all the £5,000 in a lump, but gives the new customer a credit for that amount and allows him to draw on it. As soon as the new works begins to sell its products, the owner begins to pay in the cheques he receives from his customers, and if the business succeeds well, the bank manager will soon have recouped

himself for the credit he gave. In actual practice, a banker finds that, taking an average over a long period, he need only keep in his till about one pound in every four or five deposited with him; much of the rest can be utilized to promote new business enterprises. Occasionally the banker needs a larger margin in his till. In a country town, for example, he will want more just before harvest or round about rent-day, but this is easily managed by getting cash from London. What the farmers take out to pay in rent, the landlords soon put back as rent received, and the stress is soon over. Chests of sovereigns frequently go from London to Edinburgh in preparation for an emergency such as this, and often come back unopened. Their mere presence is enough. They may even go all the way to Egypt to shift the cotton crop.

Bankers and Workers

Workers do not generally have accounts in our large joint-stock banks and do not make payments by cheque, but to infer that they have no concern with the banks would be absurd. The banker is, in fact, one of the worker's best friends, for, as we have seen, it is the banker's task to put to effective industrial use the greater part of the spare cash and permanent savings which are entrusted to his keeping. Banks grow as industry grows, and industry grows as banks grow. Each keeps the other, for a bank is simply a place where credit is organized and, as it were, harnessed to the industrial wagon; and credit, just so long as it is absolutely flawless, can do anything that cash can do. Neither for current business nor for expansions of business could we return to a "spot cash" basis. There is cash enough for transactions across the counters of retail shops, and not much beyond that. The big

things of business are all done by cheques on banks, and it is of course transactions of this kind that provide work and wages. Banks are reservoirs of economic power, but this power will only flow out of them into the channels of trade while the social system of which they are part is stable and active. As soon as the machine-guns began to rattle in Berlin the banks shut and barricaded their doors, and until they opened them again business and the work and wages that depended on it were paralysed. Powerful as they are, banks are singularly delicate institutions.

The Cost of Selling

TALK NUMBER XIX.

WHEN the coal-man carries a hundred-weight of coal round to the back of your house and dumps it down in the shed, it is natural for you, especially in these days, to compare two things: (1) the half-crown which you put into his grimy hand; and (2) the shilling which the mine-owner got for it at the pit-head.

These may not be the exact figures, but they are near enough for our purpose, and indeed any figures not wholly irrational would serve us equally well. At any rate, it will be well to note that the argument is not necessarily upset if the figures are proved not to be quite right.

Then what does the eighteen-pence stand for? It is only coal still, now that it is in your shed. You give a tailor a bale of cloth and he returns you a suit. Here you can see the difference, and understand that you are paying him for the visible and useful change he has made in the thing itself, for a bale of cloth is not a suit of clothes. But, whether at the mouth of the mine or in a London house, a hundred-weight of Derby Brights is, so far as the eye can see, one and the same thing, and should, it would seem, be sold at the same price.

Clearly, however, there is a great difference between coal in the place where you want it and the same coal in a place where you cannot get at it. You want coal in your scuttle, and if your scuttle is empty, and the weather is cold or the

dinner uncooked, a train load of coal on the railway behind your house can bring you no comfort. In other words, when a commodity is physically ready for use in satisfying human needs it has to be placed in the hands of the human beings who want those needs satisfied. It must have place-utility added to form-utility, as the economists put it.

The Chain Between

Suppose that, at a given moment when you urgently need coal, you would give twenty shillings for a hundred-weight rather than go without it—a not extravagant supposition. In fact, however, you pay only half-a-crown for it. On this occasion then, you do not lose eighteen-pence, as some shallow minds would have you believe. On the contrary, you gain seventeen shillings and six pence—quite a different matter, to be sure, but surely the right way of looking at it.

Occasionally, there is no gap between the place in which the article is ready for use and the place in which it is to be used. If you have a garden, potatoes come out of it into the saucepan and on to the table. For most of us who live in towns, however, there is such a gap, often a very broad one; and that gap is filled with a number of men who are hard at work bridging it for us, and the work of these men, being done from purely economic motives, must be paid for. From our point of view it is just as important for us to have men to deal in coal as it is to have railway men to transport it and miners to dig it. If when you wanted coal you had to knock off work, and race around, jingling two shillings and sixpence in your breeches pocket, hunting for a man with coal to sell, your life would be much poorer and less pleasant.

The Middleman

It is quite usual to speak sarcastically of the "middleman," and to say that he is a parasite, who renders no return for the payment he exacts. He is no parasite, for we cannot do without him—which is the final test in life. Like a coal-owner or a coal-miner, he may exact from us more than we think he is worth, and then the simple plan is to see if we can get his service rendered by some one else at a cheaper rate. The cooperative societies originated in the determination of the Rochdale pioneers to see whether they could cut out the retailer, and as the plan succeeded their successors have gone still farther, and, in some lines at any rate, cut out the wholesaler—only, however, to replace both by retailers and wholesalers under their own control.

Similarly, State action could not dispense with the chain of middlemen. It could only turn them into civil servants, doing their work for salaries instead of profits, and there is not an atom of assurance that the addition made to the final selling price by these new salaries would be less than that added by the old profits. The cost of selling, in short, is as much a part total cost as the original cost of production, and must be met out of the retail price paid by the ultimate consumer.

The service rendered by the middleman is therefore an indispensable one, and is measured, as shown above, by the price actually paid by the consumer for a given article and the price he would be willing to pay rather than go without it. So that if you look at the complicated process of selling from your own point of view as consumer, you see that you gain by it. Now look at the same process from the other end of the chain. As a producer, engaged, we will suppose, in a

Lancashire weaving shed, it is necessary that there should be in existence men who will devote themselves to the selling of the "grey cloths" you turn out. True, they do it not because they love you or like the colour of your eyes, but because they want to make money.

Whichever end of the chain you stand at—the producer's end or the consumer's end—the advantage of the links in between is obvious. Of course there may be unnecessary links, which can be cut out with profit. The odds are, however, that there are not. Men cannot permanently get pay for unnecessary work. What the middleman gets, it is generally worth our while to let him get.

What Capital Gets

TALK NUMBER XX.

SUPPOSE a man came to you and said, "Here is a bag containing a hundred sovereigns. I am going to give it to you, and you can have it now or in a year's time." What would you reply? Obviously you would say, "Thank you very much. I'll take it now."

Go a step farther. Can you imagine any circumstances under which any normal man, moved by ordinary human feelings, would reply, "Thank you very much. I'll have it a year hence"? Obviously not. A proverb, it has been said, is "the wisdom of many and the wit of one." Well, the wisdom of the many has settled our question for us: A bird in the hand is worth two in the bush.

When we are studying economics we are much worse off than the student of chemistry, for he can make experiments, and we cannot. Or, rather, "experiments," in economics are generally made under such uncertain conditions that the lessons to be drawn from them are not often clear and decisive. But when you are asked such a question as the above, you do really perform a sort of experiment on your own mind. You go farther, for you assume that when other men make the same experiment on their minds they will get the same result. They will all, in short, say "Now."

Let us continue the experiment. Suppose the man offers you a choice between two bags. One contains exactly a hundred sovereigns, and you can have that now. The other, which

you can only have a year hence, contains more than a hundred sovereigns. Which would you choose?

Clearly you cannot answer that question straight off. Good as it is to have a hundred sovereigns now, it will be better to wait a year if the extra sovereigns will make it worth your while.

How many extra sovereigns will make it worth your while? To find that out many things have to be taken into account. The giver may alter his mind during the year, and if you forego the hundred to get the hundred *plus* something, you may get nothing in the end. Or, assuming that he will not alter his mind, he may die in the year, or you may die. If his health is splendid, the extra number of sovereigns required will be less than if his health be poor, because the risk is less.

The Rate of Interest

Suppose, again, that it was a firm gift under deed, as the lawyers say, from him and his heirs to you and your heirs, and, to make matters doubly sure, the larger bag, if it is that you choose, is to be locked up in a safe in a bank. If you learn that the larger bag contains 101 sovereigns, which bag will you choose? The smaller. If 102? The smaller. If 104? The smaller; but you would not answer quite so quickly, would you? And at, say, 106, you would hesitate no longer. Another man, confronted with the same choice, might stop at 105; another go on to 107; but—and that's the real point—all would stop some where. And, as men living in the same country and doing pretty much the same thing, come to be pretty much of the same way of thinking, they would all to-day in England stop round about 105.

So we have decided that a bag containing 100 sovereigns to be had now, and a bag containing 105 sovereigns a year hence *are of the same value*. The writers of the Middle Ages were of opinion that it was wrong to take back more than was lent, and the old usury laws were based on the theory that money was "barren." But if you lend a man a bag of 100 sovereigns to-day and in a year's time he brings you back a bag of 105 sovereigns, *he brings you back precisely what you lent him*, since, as our argument shows, the two bags are of equal value to you to-day.

How many extra sovereigns there must be in the larger bag is, as we saw, something that cannot be determined exactly if you only take two men into account. But in practice many men are always lending other men sums of money, and, in general, the borrower uses the loan for the purposes of his business. And men who borrow for business purposes have a pretty shrewd notion of the worth of the money to the business, while the people who lend are generally quite as well able to gauge the same thing. So that competition settles how much has to be added to a present hundred to make up for waiting for a year, and, whatever it is, the added number is the current rate of interest.

The Return for Waiting

There have been many explanations of how interest comes to be paid on capital. One theory is that it is the reward of abstinence; another, that inasmuch as the capital increases the productivity of the business, interest is the agreed share of extra product which goes to the owner of the capital. Both theories contain part of the whole truth. Very rich men have such large incomes that to talk of them "abstaining" is

stilted and unreal; but capital began in very real abstentions from present enjoyment that thoroughly deserved all the reward they got, and very much capital is amassed to-day by painful strivings and savings. Again, capital increases wages just as truly as it earns interest, and the worker cannot get his share of the increase unless the capitalist get his. But the main justification of interest is the one we got by asking the simple question with which we started. Interest is the money value of the difference we all feel between the present and the future.

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